

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ORCHARD GRASS SANITATION, INC.,	)	
A KENTUCKY CORPORATION;	)	
118 MILL ROAD, PARK RIDGE,	)	
NEW JERSEY 07656, JOINT	)	
APPLICATION FOR APPROVAL OF	)	CASE NO. 9295
TRANSFER OF SEWER TREATMENT	)	
PLANT, AND MOTION BY ORCHARD	)	
UTILITIES, INC., FOR	)	
AUTHORIZATION TO ISSUE EVIDENCE	)	
OF INDEBTEDNESS	)	

O R D E R

On March 7, 1985, Orchard Grass Sanitation, Inc., ("Orchard Sanitation") and Orchard Grass Utilities ("Orchard Utilities") filed with the Commission a joint application requesting approval of the sale and transfer of a certain sewer treatment plant (the "Facility") from Orchard Sanitation to Orchard Utilities. The application further included a request by Orchard Utilities to issue evidence of indebtedness.

No motions to intervene in this matter were filed nor were there any requests for a public hearing.

This Order addresses the Commission's findings and determinations on issues presented and disclosed in its investigation of Orchard Utilities' proposed purchase of the assets of Orchard Sanitation and the motion of Orchard Utilities to issue evidence of indebtedness.

### Commentary

Orchard Sanitation is owned by the Titan Group, Inc., of Park Ridge, New Jersey, and Orchard Utilities is owned by Mr. Carroll F. Cogan of Jefferson County, Kentucky. The Facility serves approximately 318 customers and is located on Bermuda Court in Oldham County, Kentucky, and serves the single-family subdivision known as Orchard Grass Subdivision.

### Discussion of Issues

In the course of this proceeding, the Commission put Orchard Utilities on notice as to its findings in the most recent rate case involving this Facility, Case No. 8193, the Amended Application of Orchard Grass Sanitation, Inc., for an Order Pursuant to Chapter 278 of the Kentucky Revised Statutes Authorizing an Adjustment in Rates for the Existing Sewage Treatment Plant Serving Orchard Grass Hills Subdivision, Oldham County, Kentucky.

In the final Order of that proceeding, the Commission concluded that the original intent of Orchard Sanitation and the Titan Group was to recover the cost of the treatment plant through the sale of lots, and therefore disallowed the proposed recovery of depreciation expense and interest expense through rates from the Orchard Sanitation customers. Subsequently, the Commission affirmed its position on this issue in the Order on rehearing.

In response to Commission requests to provide comments as to proposed future rate-making treatment concerning these issues, Orchard Utilities suggested that because these issues are not

presently before the Commission, they should not be resolved until the next rate case.

The Commission will allow Orchard Utilities the option of deferring the resolution of these issues until the next rate case. However, if Orchard Utilities chooses to proceed with the purchase, it must do so with no assurance that the amortization of the acquisition adjustment, or interest on the debt to finance the purchase, will be allowed for rate-making purposes. In the next rate case, in resolving these issues, the Commission will base its decision on such factors including, but not limited to, the following: 1) negotiated price paid; 2) improvements in quality of service; 3) the initial investment per customer based on the negotiated price; 4) the cost involved in restoring the system to required standards; 5) the potential to add additional customers through acquisition; 6) operational economics; 7) the total facilities involved in the purchase, including both utility and non-utility property; 8) the short- and long-run economic benefits of the acquisition at a price in excess of net book; 9) overall benefits to existing and new customers; and 10) the findings of Case No. 8193.

#### Summary

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The present operator, Orchard Utilities, is ready, willing and able to purchase, operate and provide adequate and reliable service to the customers formerly served by Orchard Sanitation. Furthermore, the stockholders of Orchard Sanitation

are ready and willing and they desire to sell, inasmuch as they wish to divest themselves of the ownership and operation of this sewage treatment system.

2. The quality of service to the present customers of Orchard Sanitation will not suffer in that Andriot-Davidson, which has knowledge and experience in the operation and maintenance of sewage treatment facilities, will be employed to operate the system. Furthermore, Andriot-Davidson is familiar with the construction and operation of this treatment plant.

3. The agreed-upon purchase price is \$215,000, which was determined through negotiations between the stockholder of Orchard Utilities and the stockholder of Orchard Sanitation.

4. Orchard Utilities should maintain its books of account in accordance with the Uniform System of Accounts for Sewer Utilities prescribed by this Commission. Accounting for an acquisition includes:

a. Recording the utility plant acquired at its original cost to the person first devoting it to public service, estimated if not known, in the appropriate utility plant in service accounts;

b. Crediting the requirements for accumulated provision for depreciation and amortization applicable to the original cost of the properties acquired to the appropriate account for accumulated provision for depreciation and amortization;

c. Transferring the cost of any non-utility property to Account No. 121--Non-utility Property;

d. Crediting Contributions in Aid of Construction, estimated if not known, to Account No. 271--Contributions in Aid of Construction; and

e. Including in Account No. 108--Utility Plant Acquisition Adjustment, any difference between the purchase price and the original cost of the utility plant and non-utility property less the amounts credited to accumulated depreciation and amortization reserves and contributions in aid of construction.

5. While legal and proper for general accounting purposes, this acquisition transaction, if not at "book value," can either increase or decrease the debt and/or equity on the utility's books. Therefore, Orchard Grass is hereby apprised that, in its next rate case, it will have the burden of proof of demonstrating why interest charges on debt that exceed those charges which would have been incurred to finance the original cost of plant in service excluding any acquisition adjustment less accumulated depreciation and contributions in aid of construction should be allowed for rate-making purposes. It will also have the burden of proof of demonstrating why a return on equity or amortization of an acquisition adjustment that resulted from this transaction for rate-making purposes should be allowed for rate-making purposes.

6. Orchard Utilities requested authority to issue the evidences of indebtedness of \$215,000 in the form of the promissory notes. One note is for the principal amount of \$45,000 bearing interest at an annual rate equal to prime plus one percent. Another note is to be for the principal amount of \$170,000 bearing no interest and represents a deferred portion of

the purchase price and is payable at the rate of \$600 for each separate future connection of a lot to be developed in presently undeveloped land. The Commission is of the opinion that this financing should be approved. However, since the stockholder of Orchard Utilities and not the ratepayers is the beneficiary of the purchase, it shall be responsible for the principal and interest payments on said debt.

IT IS THEREFORE ORDERED that the transfer of ownership of the Facility from Orchard Sanitation from its stockholder, the Titan Group, Inc., to Orchard Utilities and its stockholder, Mr. Carroll F. Cogan, be and it hereby is approved.

IT IS FURTHER ORDERED that the financing of \$215,000 as described in Finding No. 6 be and it hereby is approved.

IT IS FURTHER ORDERED that in future rate cases, the allowable interest charges for the purposes of setting rates shall be determined as set out in Finding No. 5.

IT IS FURTHER ORDERED that Orchard Sanitation shall file a 1985 Annual Report covering January 1, 1985, through the date of closing.

IT IS FURTHER ORDERED that the sale and transfer of assets be recorded in accordance with Finding No. 4.

IT IS FURTHER ORDERED that Orchard Utilities shall file an adoption notice with the Commission in accordance with 807 KAR 5:011, Section 11.

Done at Frankfort, Kentucky, this 6th day of August, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Neman  
Chairman

R. L. Dyer  
Vice Chairman

did not participate  
Commissioner

ATTEST:

Secretary